BETTER POLICIES FOR BETTER LIVES
OECD 50th Anniversary Forum / Paris, 24-25 May 2011

SESSION SUMMARY

NEW PARADIGMS FOR DEVELOPMENT

- ***Panel 1:* Sustaining Development**
- ***Panel 2:* Mobilising Domestic Resources and Partnerships**

Wednesday 25 May 2011

Moderators: **J. Brian Atwood**, Chair, Development Assistance Committee, OECD
Bert Koenders, Co-chair, OECD Working Party on Aid Effectiveness

Panel 1: Sustaining Development

Panelists: **Paul Collier**, Professor of Economics, University of Oxford, United Kingdom
Donald Kaberuka, President, African Development Bank (AfDB)
Farah Karimi, Executive Director, Oxfam Novib, Netherlands
Dambisa F. Moyo, Author and Economist
Kanayo F. Nwanze, President, International Fund for Agricultural Development (IFAD)

A "new era" where aid-dependent countries take ownership over their own economic development is possible, participants argued, if meaningful investments are made in the developing world's remarkable potential. In a session that found Zambian aid critic **Dambisa F. Moyo** next to prominent proponents of development aid, formally known as Official Development Assistance (ODA), panel members agreed that these investments must continue to come from OECD member states in the form of more effective aid. But developing countries also need to jump into the fray by promoting sustainable development and more efficient mobilisation of their own domestic resources.

Session moderators **J. Brian Atwood**, Chair, Development Assistance Committee, OECD and **Bert Koenders**, Co-chair, OECD Working Party on Aid Effectiveness, led the discussion in light of the upcoming 4th High Level Forum on Aid Effectiveness in Busan, Korea. Both Mr. Atwood and Mr. Koenders noted that the OECD is increasing its focus on improving aid effectiveness and including developing countries in global partnerships. As success stories continue to surface from Africa, even in the wake of the global financial crisis, Mr. Atwood said the panel would also share the "good news from Africa."

Donald Kaberuka, President of the African Development Bank, began the discussion with some good news by confirming that Africa has experienced average growth of 5%-6% in the past few years. This recovery is testament to home-grown efforts in African countries, said the former Rwandan minister of finance. While he noted the role played by ODA in these growth rates, he insisted that "the critical element in this recovery is very much domestic." He cited the example of Ghana, which started a long period of sometimes painful economic reforms in 1983 and is today reaping the benefits. African business has played an important role, he said, adding that it was important not to "overestimate the role played by ODA." Finally, in order to further unlock Africa's potential, Mr. Kaberuka urged leaders to look towards Europe's experience of open borders with the Schengen Agreement. He added that 40% of remittances sent to African countries come from Africans living in other countries on the continent.

Farah Karimi said that "The issue is who is benefiting from the economic growth in a country". Development is about "power and power relations." She said it was the responsibility of development organizations to manage these relationships and to "hold people accountable for the decisions they are taking." She cited her recent experience in Mozambique, where local women told her that mothers had six children on average. When Ms. Karimi asked their ideal number, the women responded "three." Why? For Ms. Karimi, this was a telling window into the role power relationships play out in developing countries. She said that these relationships are vital for her organisation, Oxfam, especially concerning food security. Ms. Kalima hoped that it will be possible to clarify these sensitive relationships and mobilize governments, institutions, civil society and the private sector in the entire chain, from "farm to fork."

The pressing topic of food security was also addressed by **Kanayo F. Nwanze:** "We must recognize first that small farmers are a central part of the solution," he said, adding that 80% of all food is provided by smallholder farms with less than two hectares. Africa has passed the stage where communities wait for handouts, he argued. Instead, there are many small entrepreneurs who want to succeed and are looking for the economic opportunity to do so. "Foreign assistance is fine but it is not going to solve the problem," he said, underlining the importance of direct domestic investment. In 2009-2010 there was a tripling in domestic financing by borrowers in Africa. "We underestimate how governments are helping themselves," he said. He did not rule out ODA in the near future for Africa, but insisted that "it is not going to solve the problem."

This sentiment was shared by one of the most well-known critics of development aid, **Dambisa Moyo**. Author of the best-selling book *Dead Aid,* Ms. Moyo was clear that "the best type of ODA that we can invest in is aid that will one day come to an end." She clarified that she has not argued to immediately "turn off the taps" and encouraged the panel to continue presenting a positive message of what has already been achieved. "Development assistance does nothing if it is not creating jobs," she said. She saw three main areas that the international community should focus on for Africa. First, she called for credit rating agencies to analyze the entire continent – today only about 15 African states have credit ratings. Second, she called on African governments to improve the business environment and cut red tape involved in obtaining business licenses, citing Rwanda as an example. Third, she joined Mr. Kaberuka in pushing for greater regional integration in Africa along the European Union model. She concluded by citing the Rwandan President's recent article in the *Financial Times*, where he said that the discussion about aid should be "when to end aid and how to best end it."

Building on the Rwandan success story in economic reform, **Paul Collier**, Professor of Economics, University of Oxford, United Kingdom, put the ball in the court of donor countries. "Would you rather have the debt of Rwanda or the debt of Greece?" he asked the audience. He argued that economic sustainability is about managing assets and liabilities, and forecast two huge opportunities for Africa over the next decade. One opportunity would be the global capital markets, although developed countries might not be the best example these days. "The poor do not have a monopoly of folly when it comes to balancing assets and liabilities", he said. The second opportunity, he said, rests in the massive amount of untapped natural resources which can be extracted from the continent. He argued that with proper management of these resources the funds can be reinvested in activities which will create additional assets.

◆ ***Panel 2:* Mobilising Domestic Resources and Partnerships**

Panelists: **Marco De Ponte**, Secretary-General, ActionAid Italy
Bernd Eisenblätter, Chairman, Management Board, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Germany
Jose W. Fernandez, Assistant Secretary of State for Economic, Energy and Business Affairs, Department of State, United States
Pravin Jamnadas Gordhan, Minister of Finance, South Africa
Mahmoud Mohieldin, Managing Director, World Bank

Discussant: **Jeffrey Owens**, Director, Centre for Tax Policy and Administration, OECD

The second panel dealt with another key issue if developing countries are to one day wean themselves off development aid: mobilizing domestic resources. **Mr. Koenders** introduced this panel by mentioning the difficulties posed by conflicts of interest and substantial capital outflows. Meanwhile, **Mr. Atwood** urged developing countries to "demonstrate that the investment you make with taxes is enhancing your country's well-being." Just as transparency in ODA is vital for donor governments, participants agreed, receiving countries must make an effort to establish transparency in taxation.

Pravin J. Gordhan, Minister of Finance of South Africa, discussed the challenges of equitable and inclusive tax collection in South Africa. He insisted on the importance of fiscal sovereignty and the need for his country to take on its own responsibility for financing through domestic taxes. "Countries have to move from dependency on foreign aid to a reliance on their own fiscal sovereignty," he said. Mr. Gordhan argued that tax revenues would have to be used for sustainable investments and lead to "tangibly better lives for the citizens". He also pointed to some major challenges such as transparency, accountability and capital outflows due to remittances and foreign financial havens (as opposed to tax havens).

Mahmoud Mohieldin spoke about the challenge of "inclusive growth". Endowed with rich natural resources, developing countries are in danger of succumbing to the "Dutch Disease" he said. Wide discrepancies still prevail between sectors, regions and genders, requiring a specific and individualised approach to different challenges, he argued. There is an urgent need for more transparency on the utilization of tax revenues and showing the returns that these investments are supposed to generate for the citizens, he said. The Open Data Initiative by the World Bank is a promising step in the right direction for increased aid transparency, according to Mr. Mohieldin.

"Tax revenue tends to be less volatile than aid," said **Jose W. Fernandez**. " Developing countries that are looking for new sources of revenue should look towards taxes." He added that his administration fully supports the OECD in its efforts to reinforce local capacity for tax administrations. However, he emphasized that effort needs to be made to ensure transparency and to combat corruption before this can become a reality. "How can you ask a low-income citizen to send hard-earned funds to a corrupt government?" he asked.

Marco De Ponte acknowledged that taxes are a politically sensitive and frequently unpopular issue, which makes it all the more important to set higher standards of transparency and accountability. Mr. De Ponte suggested that there are numerous parallels between poor and rich countries on the tax debate, and that interests have to be aligned. He said that ActionAid is "working village by village" in order to promote this agenda with national governments and to establish a relationship between politicians and the citizens who are supposed to be the ultimate beneficiaries of tax spending.

Bernd Eisenblätter commented on the important role of the informal sector in developing countries. "Without fair taxation, it is not worthwhile to come into the formal economy," he said. He concluded that there is a general tendency to frontload on concepts and to dedicate a considerable amount of resources to the planning and conceptualization of projects. He cited Ghana and Nepal as examples where the government, civil society and private sector held an open discussion about fair taxes, transparency and "where the money goes." Going beyond taxation, he then suggested securitization as a means to deal more effectively with remittances, which are responsible for considerable capital outflows. Finally, he offered a cautionary note: "We need to remember that partners from the "south" have the right to demand fair trade from the OECD, but the OECD has the right to demand transparency."

Discussant **Jeffrey Owens** laid out the clear role that the OECD can play in forming a global partnership between richer and poorer countries. With the national character of tax systems being a major challenge to international efforts at harmonisation, Mr. Owens urged that we have to "move from co-operation to co-ordination," pointing to the progress already made by the OECD on fighting tax havens.

IM/PK, SH, PC